

WATER/SNR/TAC/LTR:jrb**PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA****WATER DIVISION****RESOLUTION NO. W-4416****August 21, 2003****R E S O L U T I O N**

**(RES. W-4416), MIRA MONTE WATER COMPANY (MMWC).
ORDER AUTHORIZING A GENERAL RATE INCREASE
PRODUCING ADDITIONAL ANNUAL REVENUE OF \$4,017 OR
24.2% IN 2002. THIS ORDER ALSO AUTHORIZES A 2.4% CPI
INCREASE FOR YEAR 2003 PRODUCING ADDITIONAL
ANNUAL REVENUES OF \$494.23.**

SUMMARY

This resolution grants a general rate increase in gross annual revenues of \$4,017 or 24.2% for Test Year 2002, and an additional \$494.23 or 2.4% Consumer Price Index (CPI) increase for year 2003. These increases will provide a 12.9% rate of return on a rate base of \$23,182.

BACKGROUND

MMWC's original increase request was filed utilizing Test Year 2001, when Test Year 2002 should have been used based on the timing of the filing and the estimated implementation date of rates. The Water Division staff (Staff) assisted MMWC in revising its filing by applying the appropriate inflation factors. The revised filing was accepted on July 15, 2002.

MMWC has requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase its water rates by 19.45 % or \$3,315 for Test Year 2002. The purpose of the rate increase is to recover increased operating expenses and to provide an adequate rate of return. MMWC's request shows the gross revenues of \$17,043 at present rates increasing by 19.45% (or \$3,315) to \$20,358 at proposed rates. MMWC is requesting a rate of return on rate base of 13.0%.

The current rates were established on May 14, 2001, pursuant to recovery of annual Department of Health Services fees and a CPI increase for 2000. The last general rate increase for MMWC was granted on December 18, 1995, pursuant to Resolution W-3967, which authorized an increase in gross annual revenues of \$4,540, or 38.8%, and a 14.25% rate of return on rate base for the Test Year 1995.

MMWC currently serves approximately 37 metered and three flat rate customers in an unincorporated area known as the Mira Monte Estates subdivision, located roughly five miles west of the City of Red Bluff, Tehama County. MMWC's service area covers less than one square mile of territory. MMWC's customers are a mixture of retired and working people earning an average income for Tehama County.

DISCUSSION

MMWC is owned by the Patterson Trust, with Donald E. Crain as the named trustee and Mr. Shan Patterson as the Trust caretaker. The Patterson Trust was formed in early 1992 and MMWC's ownership was transferred from Mr. and Mrs. Patterson to the Patterson Trust in December of 1992.

The Patterson Trust also owns two other water systems: Vista Grande Water System (VGWS) and Las Flores Water Works (LFWW). All three water utilities are operated by Mr. Shan Patterson. MMWC employs three individuals: Mr. Shan Patterson (manager, general maintenance and field worker), Mrs. Shirley Patterson (office worker), and a person who aids in meter-readings. The majority of repair work is done by Mr. Patterson or is contracted out.

The three CPUC-regulated entities, while distinct, do have the benefit of some shared expenses (e.g. transportation, salaries, insurance, etc.). This requires the customers of each company to pay a percentage of these expenses. Shared expenses are allocated to each district based upon the number of customers. This resolution deals specifically with MMWC's rate increase request. VGWS's and LFWW's requests are dealt with in separate resolutions.

Appendix A shows MMWC's and the Branch's estimates of the summary of earnings at present, requested, and recommended rates. Appendix A also shows differences between MMWC's and the Branch's estimates in operating revenues, expenses, and rate base.

Staff analyzed each operating expense item listed in Appendix A and disagreed with several of MMWC's estimates. Most differences involved allocation of expenses among the three water utilities. Where indicated, Staff has allocated expenses based upon the percentages of customers.

MMWC was informed of the Branch's differing views of revenues, expenses, and rate base and it agrees with the Branch's findings.

In D.92-03-093, effective April 30, 1992, the CPUC adopted the operating ratio method of ratemaking as an alternative to the rate of return method for Class C and Class D utilities. Thus, two methods are available for Staff to utilize in the ratemaking process: Return on Rate Base (net investment) and Operating Ratio. Staff first calculates the revenue requirement utilizing the rate of return method and then calculates the revenue requirement utilizing the operating ratio method. Policy dictates that Staff will recommend the method that produces the higher revenues.

In the operating ratio method, the utility's revenue requirement is defined as the sum of its operating and maintenance expenses, depreciation expenses, income and other taxes, and an operating margin. A 20% rate of margin has historically been used to determine the margin over and above operating, maintenance, and depreciation expenses.

Comparison of the revenue requirement indicates that the return on rate base method produces a higher revenue requirement than the operating ratio method. In keeping with policy, Staff recommends the return on rate base method for determining the revenue requirement.

The current workbook utilized for Class D utilities (now a modified 3-page document) only allows the utility to utilize the last adopted rate base figure and to add and retire plant additions since the last rate case. There are no adjustments allowed for accumulated depreciation on prior plant in service, working cash, or materials and supplies.

MMWC estimates \$26,709 for Rate Base for Test Year 2002. MMWC utilized the 1995 adopted rate base with adjustments made for plant additions/retirements (from 1995 to 2001), as provided in the current workbook. Staff estimates \$23,182 for Test Year 2002. Staff utilized the 1995 adopted rate base, made adjustments

for plant additions/retirements, depreciation, working cash, and materials and supplies.

Staff utilized the 1995 approved plant-in-service figure of \$27,177 as its starting point. Staff then added the corresponding plant additions and retirements from 1995 to 2001, redistributed office furniture and equipment between the three water utilities, proportionately by the number of customers, and corrected numerous errors in MMWC's plant accounts as recorded in its annual reports (numerous accounts amounts were inadvertently recorded incorrectly and the errors were carried from annual report to annual report). Staff estimates, after all adjustments, the average utility plant-in-service to be \$33,205 for the 2002 Test Year.

Because of the redistribution of plant, Staff is recommending that MMWC be ordered to incorporate the following figures as beginning-of-year plant-in-service figures in its 2002 annual report:

ACCOUNT	DESCRIPTION	AMOUNT
301	Intangible Plant	\$ 500
303	Land	2,000
304	Structures	0
307	Wells	0
317	Other Water Source Plant	0
311	Pumping Equipment	8,554
320	Water Treatment Plant	0
330	Reservoirs, tanks, & sand pipes	5,817
331	Water Mains	11,150
333	Services & Meter Installations	915
334	Meters	3,480
335	Hydrants	150
339	Other Equipment	0
340	Office Furniture & Equipment	639
341	Transportation Equipment	0
	TOTAL	\$33,205

There are no outstanding Commission Orders requiring system improvements for MMWC. However, Staff is concerned with the lack of a reliable secondary source of supply and recommends that MMWC be ordered to investigate and report to the Water Division within 90 days as to the costs of secondary source of supply, including alternative methods, and the rate impact on the customers.

MMWC has been filing annual reports as required. MMWC's tariff sheets have been reviewed by Staff and the following sheets need to be updated: Title Page, Rule 5, Special Information Required on Forms, Rule 7, Deposits, Rule 10, Disputed Bills, and Form 2, Customer's Deposit Receipt.

MMWC's current rate structure consists of two schedules: Schedule No. 1, General Metered Service, which contains one rate block for all water sold, and Schedule No. 2 Flat Rate Service. The new rate schedule can be found in Appendix B. At Staff's recommended rates, a monthly bill for an average 5/8 x 3/4-inch metered residential customer using a 29 Ccf of water will increase from \$35.57 to \$43.47, or 22.2%.

A monthly bill for a flat rate customer will increase from \$44.41 to \$47.30, or 6.5%. Ultimately, the flat rate should be designed so that the rate is the same, or close to the same, as that of the average metered rate customer. In this case, the flat rate is slightly higher than the average metered rate.

A comparison of customer bills at present and recommended rates is shown in Appendix D. The adopted quantities and tax calculations are shown in Appendix C.

NOTICE AND PUBLIC MEETING

MMWC mailed a notice of the proposed rate increase to each customer on September 16, 2002. One letter of protest opposing the rate increase has been received by Staff. From March 17, 2002 to March 17, 2003, the Consumer Affairs Branch of the Public Affairs Division received one billing complaint regarding MMWC.

On October 9, 2002, Staff held a public meeting in Red Bluff, near MMWC's service territory. No customers attended the meeting. Staff and MMWC's representative waited for 35 minutes before adjourning the meeting.

FINDINGS

1. The Staff's recommended Summary of Earnings (Appendix A) is reasonable and should be adopted.
2. Staff recommends that rates be increased by a 2.4% CPI due to the timing of this report.

3. The rates recommended by the Staff (Appendix B) are reasonable and should be adopted.
4. The quantities (Appendix C) used to develop the Staff's recommendations are reasonable and should be adopted.
5. The rate increase proposed by the Staff is justified. The resulting rates are just and reasonable.
6. MMWC does not have a reliable secondary source of supply.
7. MMWC's system meets G.O. 103 pressure requirements.
8. MMWC does not maintain a detailed vehicle mileage log and is unable to provide actual mileage for its transportation expense.
9. MMWC's annual reports contain numerous recording errors.
10. MMWC's records are not properly kept in an easily accessible fashion.
11. MMWC's following tariff sheets need to be updated: Title Page, Rule 5, Special Information Required on Forms, Rule 7, Deposits, Rule 10, Disputed Bills, and Form 2, Customer's Deposit Receipt.

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public utilities Code Section 454 to Mira Monte Water Company, to file an advice letter incorporating the summary of earnings and the revised rate schedules attached to this resolution as Appendices A and B respectively, and concurrently cancel its presently effective rate Schedule No. 1, General Metered Service, and Schedule No. 2, Flat Rate Service. The filing shall comply with General Order 96-A. The effective date of the revised schedules shall be five days after the date of filing.
2. Mira Monte Water Company is authorized an increase of annual revenues of \$4,017, or 24.2%.
3. Mira Monte Water Company is authorized a CPI increase of 2.4% or \$494.23 over annual revenues of \$20,593.
4. Mira Monte Water Company shall investigate and report to the Water Division within 90 days as to the costs of secondary source of supply, including alternative methods, and the rate impact on the customers.

5. Mira Monte Water Company shall investigate and report to the Water Division within 90 days as to a plant improvement program.
6. Mira Monte Water Company shall maintain a detailed vehicle mileage log that will clearly identify utility-related expenses.
7. Mira Monte Water Company shall correct the errors found in its annual reports.
8. Mira Monte Water Company shall incorporate the figures shown in this report as its beginning-of-year plant-in-service and depreciation reserve accounts in its 2002 annual report.
9. Mira Monte Water Company shall keep their records in an easily accessible fashion and in accordance with the Commission's Uniform System of Accounts.
10. Mira Monte Water Company shall update the following tariff sheets: Title Page, Rule 5, Special Information Required on Forms, Rule 7, Deposits, Rule 10, Disputed Bills, and Form 2, Customer's Deposit Receipt.
11. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on August 21, 2003; the following Commissioners voting favorably thereon:

WILLIAM AHERN
Executive Director

Appendix A
Mira Monte Water Company

Summary of Earnings -- Test Year 2002

<u>Description</u>	<u>MMWC</u>		<u>Branch</u>		<u>Recommended</u>
	<u>Present</u>	<u>Proposed</u>	<u>Present</u>	<u>Proposed</u>	
	<u>Rates</u>	<u>Rates</u>	<u>Rates</u>	<u>Rates</u>	<u>Rates</u>
<u>Operating Revenue</u>					
Unmetered	1,338	1,598	1,338	1,599	1,663
Metered	15,705	18,760	15,238	18,204	18,930
	17,043	20,358	16,576	19,803	20,593
<u>Operating Expenses</u>					
Power	6,307	6,307	6,307	6,307	6,307
Other Volume Related. Expenses	524	524	0	0	0
Employee Labor	741	741	428	428	428
Materials	450	450	214	214	214
Contract Work – General	222	222	1,233	1,233	1,233
Contract Work -- Water Testing	1,290	1,290	900	900	900
Transportation Expenses	1,283	1,283	626	626	626
Office Salaries	0	0	1,232	1,232	1,232
Management Salaries	2,120	2,120	1,972	1,972	1,972
Uncollectible Expenses	0	0	81	97	101
Office Services & Rent	471	471	630	630	630
Office Supplies & Expense	153	153	351	351	351
Professional Services	103	103	47	47	47
Insurance	250	250	368	368	368
Regulatory Commission Expenses	253	253	415	415	415
General Expenses	221	221	23	23	23
Subtotal	14,388	14,388	14,828	14,843	14,847
Depreciation	677	677	676	676	676
State Income Tax	--	1,416	28	312	800
Federal Income Tax	--	--	44	483	528
Taxes Other than Income Taxes	405	405	752	752	752
Total Deductions	15,470	16,886	15,369	16,107	15,894
Net Revenue	1,573	3,472	249	2,737	2,991
<u>Rate Base</u>					
Average Plant	--	--	33,205	33,205	33,205
Avg. Accumulated Depreciation	--	--	11,558	11,558	11,558
Net Plant	--	--	21,647	21,647	21,647
Less Advances	--	--	0	0	0
Contributions	--	--	0	0	0
Plus Working Cash	--	--	1,236	1,237	1,237
Materials & Supplies	--	--	297	297	297
Rate Base:	26,709	26,709	23,180	23,181	23,182
<u>Rate of Return</u>	5.89%	13.00%	1.07%	11.81%	12.90%

Appendix B
(Page 1 of 2)
Mira Monte Water Company

Schedule No. 1
General Metered Service

APPLICABILITY

Applicable to all general metered water service.

TERRITORY

Mira Monte Estates, a subdivision approximately five miles west of the City of Red Bluff, Tehama County.

RATES

Quantity Rates	Per Meter Per Month	
All water, per 100 cu. ft.	\$0.96	(I)
Service Charge		
For 5/8 x 3/4-inch meter	\$ 16.81	(I)
For 3/4-inch meter	\$ 25.21	
For 1-inch meter	\$ 42.02	
For 1 1/2-inch meter	\$ 84.05	
For 2-inch meter	\$134.48	(I)

The Service Charge is a readiness-to-serve charge, which is applicable to all metered service and to which is added the monthly charge computed at the Quantity Rates.

SPECIAL CONDITIONS

1. In accordance with Section 2714 of the Public Utilities Code, if a tenant in a rental unit leaves owing the company, service to subsequent tenants in that unit will, at the company's option be furnished on the account of the landlord or property owner.
2. A late charge will be imposed per Schedule No. LC.
3. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

**Appendix B
(Page 2 of 2)
Mira Monte Water Company**

**Schedule No. 2
Flat Rate Service**

APPLICABILITY

Applicable to all flat rate service.

TERRITORY

Mira Monte Estates, a subdivision approximately five miles west of the City of Red Bluff, Tehama County.

RATES

All flat rate service, per month \$47.30 (I)

SPECIAL CONDITIONS

1. A late charge will be imposed per Schedule No. LC.
2. The above residential flat rates apply to service connections not larger than one inch in diameter.
3. If the utility so elects, a meter shall be installed and service provided under Schedule No. 1, General Metered Service.
4. In accordance with Section 2714 of the Public Utilities Code, if a tenant in a rental unit leaves owing the company, service to subsequent tenants in that unit will, at the company's option be furnished on the account of the landlord or property owner.
5. All bills are subject to the reimbursement fee set forth on Schedule No. UF.

Appendix C
(Page 1 of 2)
Mira Monte Water Company

Recommended Quantities -- Test Year 2002

Expenses

1. Federal Tax Rate: 15% for 1st \$50,000 of taxable income
25% for next \$25,000 of taxable income
34% for next \$25,000 of taxable income
39% for next \$235,000 of taxable income

2. State Tax Rate: 8.84%

3. Purchased Power:

Pacific Gas and Electric Company, Schedule No. A-1 & A-1P,
Small General Service, Effective July 27, 2001

Quantity Charge:

kWh used - total: 30,688
kWh used - summer: 23,281
\$/kWh - summer: \$0.14870
kWh used - winter: 7,407
\$/kWh - winter: \$0.10193

Service Charge:

\$/pump/mo. - single-phase: \$8.10
\$/pump/mo. - polyphase: \$12.00
of pumps - single phase: 0
of pumps - polyphase: 2

Pacific Gas and Electric Company, Schedule No. E-EPS,
Energy Procurement Surcharges, Effective May 15, 2001

Quantity Charge:

All electric service customers: \$0.0100/kWh
Schedule A-1 & A-1P customers
\$/kWh - summer: \$0.06140
\$/kWh - winter: \$0.02838

Appendix C
(Page 2 of 2)
Mira Monte Water Company

Recommended Quantities -- Test Year 2002

- | | | |
|----|--------------------------|----|
| 4. | For 5/8 x 3/4-inch meter | 33 |
| | For 3/4-inch meter | 4 |
| | TOTAL | 37 |
5. Metered water sales used to design rates: 12,055 Ccf
6. Property Taxes: \$255 (1.0% tax rate)
7. Payroll Taxes: \$497
8. Contract Work - Water Testing: \$900
9. Adopted Tax Calculations

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenues	\$20,593	\$20,593
2.	Expenses	\$14,847	\$14,847
3.	Taxes Other Than Income Taxes	\$ 752	\$ 752
4.	Depreciation	\$ 676	\$ 676
5.	Interest	\$ 0	\$ 0
6.	State Taxable Income	\$ 4,319	
7.	State Income Tax (@8.84%, no \$800 minimum)	\$ 800	
8.	Federal Taxable Income		\$ 3,519
9.	Federal Income Tax (@15%)		\$ 528
10.	TOTAL INCOME TAX		\$ 1,328

Appendix D
Mira Monte Water Company

Comparison of Rates -- Test Year 2002

METERED SERVICE

	Present <u>Rates</u>	<u>Per Service Connection Per Month</u>		
		<u>Rates Before</u> <u>CPI</u>	<u>Rates Incl.</u> <u>CPI</u>	<u>Percent</u> <u>Increase</u>
Service Charge:				
For 5/8 x 3/4-inch meter	\$13.70	\$ 16.42	\$ 16.81	19.68%
For 3/4-inch meter	\$15.06	\$ 24.62	\$ 25.21	63.5%
For 1 – inch meter	\$21.00	\$ 41.04	\$ 42.02	95.4 %
For 1-1/2 – inch meter	\$27.58	\$ 82.08	\$ 84.05	197.6%
For 2 – inch meter	\$37.18	\$131.32	\$134.48	226.48%

Quantity Charge:

All water, per 100 cu. ft.	\$0.754	\$0.933	\$0.960	23.7%
----------------------------	---------	---------	---------	-------

Comparison of a monthly typical bill for residential metered customers with a 5/8 x 3/4-inch is shown below at current rates and recommended rates for test year 2002:

Usage	Present	Recommended	Amount of	Percent of
		<u>Rates</u>		
		<u>(Including CPI</u>		
<u>100 cu. ft.</u>	<u>Rates</u>	<u>Increase)</u>	<u>Increase</u>	<u>Increase</u>
0	\$13.70	\$16.42	\$2.72	19.9%
5	\$17.47	\$21.08	\$3.61	20.7%
10	\$21.24	\$25.75	\$4.51	21.2%
20	\$28.78	\$35.08	\$6.30	21.9%
29 (avg)	\$35.57	\$43.47	\$7.91	22.2%
30	\$36.32	\$44.41	\$8.09	22.3%
40	\$43.86	\$53.74	\$9.88	22.5%
50	\$51.40	\$63.07	\$11.67	22.7%